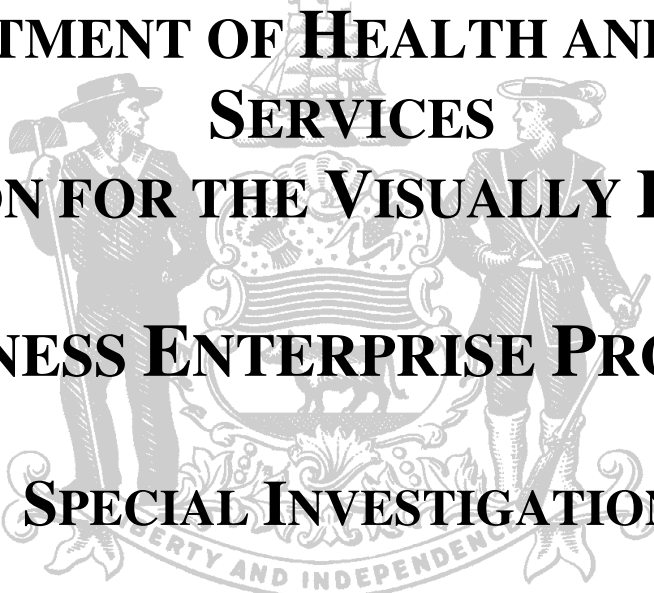


STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

**DEPARTMENT OF HEALTH AND SOCIAL
SERVICES**
DIVISION FOR THE VISUALLY IMPAIRED
BUSINESS ENTERPRISE PROGRAM
SPECIAL INVESTIGATION

The seal of the State of Delaware is centered behind the text. It features two figures, a Native American on the left and a Revolutionary War soldier on the right, flanking a central shield. The shield contains a ship and a lion. Below the shield is a banner with the words "LIBERTY AND INDEPENDENCE".

FIELDWORK END DATE: AUGUST 17, 2007

R. THOMAS WAGNER, JR., CFE, CGFM, CICA
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State of Delaware
Office of Auditor of Accounts
R. Thomas Wagner, Jr. – CFE, CGFM, CICA
At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

AOA received a request for a review of the controls surrounding the Carvel Cafeteria, which is administered by the Business Enterprise Program (BEP). The request questioned the abrupt resignation of the cafeteria manager as well as suggested improprieties concerning the receipts and disbursements of the cafeteria transactions.

AOA received an additional complaint expressing concern that certain cafeteria revenues may have been improperly deposited. The allegation questioned whether the money received from Dunkin Donuts (who operates a small restaurant in the Carvel Building) was properly deposited to the cafeteria manager.

Background

The BEP is a federally authorized program managed by the State of Delaware within the Division for the Visually Impaired to train and license Delawareans who are blind and visually impaired to establish and manage food service businesses in public and private facilities. Delaware has also included the operation of vending stands, snack bars, cafeterias, and gift shops as part of the services BEP provides. The BEP staff trains and supervises the business operators and equips locations, provides initial stock, and offers on-going technical support.

The BEP is governed by the Randolph Sheppard Act enacted in 1936. This landmark federal law provides for first priority rights for Delawareans who are legally blind to operate businesses in federal buildings. Delaware also established a similar law that includes all State facilities. Delaware State law created excellent employment opportunities for program growth and employment opportunities for persons with vision impairments. Persons employed in the Delaware BEP are essentially small business owners and are referred to as BEP operators.

For further information on this release, please contact:

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DHSS – Division for the Visually Impaired
Business Enterprise Program – Special Investigation

What We Found

Per review of the Carvel Cafeteria's contract and transactions, the following conclusions were reached:

- The cafeteria manager did not maintain adequate supporting documentation for the cafeteria's financial transactions. For the period January 1, 2007 to May 31, 2007, the following discrepancies were noted:
 - Sales: AOA could not find support for two cash register tapes supporting \$926.19 of sales and could not trace three register tapes supporting \$1,126.31 of sales to the reported figures. In addition, the cafeteria manager did not prepare a reconciliation from the end-of-day register reading to the reported sales for the day when discrepancies occurred.
 - Deposits: AOA could not locate supporting documentation for one deposit of \$95.43 that was reported by the cafeteria manager as revenue to the cafeteria. Also, the cafeteria manager reported \$1,380.05 more in deposits than AOA could find support for.
 - Cash Paid Out: AOA could not locate supporting documentation for \$1,804.91 out of \$9,832.96 the cafeteria manager reported as cash paid out of the cash register to various vendors for supplies and other miscellaneous items.
 - Credit Card Charges: There were discrepancies of \$220.19 in credit card charges reported by the cafeteria manager during the period reviewed.
- The cafeteria manager did not make the required daily deposits. Of the 97 transactions reviewed, 93 transactions totaling \$31,640.94 were not deposited in accordance with contract guidelines.
- The cafeteria manager does not have sufficient written policies and procedures governing the recording, processing, summarizing, and reporting of cash receipt transactions.

Based on conclusions reached, AOA cannot determine the propriety of the sales deposits, cash paid out, and credit card transactions at the Carvel Cafeteria.

Based on the documentation reviewed regarding the Dunkin Donuts allegation, AOA determined that the deposits received from Dunkin Donuts were properly deposited into the cafeteria manager's account.

What We Recommend

The Office of the Auditor of Accounts (AOA) recommends that the cafeteria manager do the following:

- maintain proper supporting documentation for all financial activity;
- comply with the requirements of the BEP agreement and ensure that staff are aware of requirements and acceptable practices for handling cash receipts; and
- maintain written policies and procedures governing financial transactions, which should include guidance regarding:
 - Timely deposits.
 - Segregation of duties regarding the handling of cash.
 - Definition and retainage of support documentation.
 - Elimination of cash payouts supplemented with customer accounts or petty cash.
 - Good business practices.

Please read the complete report for a full list of findings/recommendations and to review the Department of Health and Social Services' response to our findings.

TABLE OF CONTENTS

Audit Authority	1
Allegation and Background	2
Objectives, Scope, and Methodology	3
Conclusions	4
Findings and Recommendations	5
Distribution of Report	8

Audit Authority

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

ALLEGATION AND BACKGROUND

Office of Auditor of Accounts (AOA) received a request for a review of the controls surrounding the Carvel Cafeteria, which is administered by the Business Enterprise Program (BEP), a program within the Division for the Visually Impaired (DVI), a division of the Department of Health and Social Services. The request questioned the abrupt resignation of the cafeteria manager as well as suggested improprieties concerning the receipts and disbursements of the cafeteria transactions.

ALLEGATION

AOA received an additional complaint expressing concern that certain cafeteria revenues may have been improperly deposited. Dunkin Donuts operates a small restaurant in the Carvel Building and is contractually obligated to pay the cafeteria manager a portion of its monthly sales. The allegation questioned whether the money received from Dunkin Donuts was properly deposited to the cafeteria manager.

BACKGROUND

The BEP is a federally authorized program managed by the State of Delaware within the Division for the Visually Impaired to train and license Delawareans who are blind and visually impaired to establish and manage food service businesses in public and private facilities. Delaware has also included the operation of vending stands, snack bars, cafeterias, and gift shops as part of the services BEP provides. The BEP is administered through the Division for the Visually Impaired, which serves persons with vision loss. The BEP staff trains and supervises the business operators and equips locations, provides initial stock, and offers on-going technical support.

The BEP is governed by the Randolph Sheppard Act enacted in 1936. This landmark federal law provides for first priority rights for Delawareans who are legally blind to operate businesses in federal buildings. Delaware also established a similar law that includes all State facilities. Delaware State law created excellent employment opportunities for program growth and employment opportunities for persons with vision impairments. Persons employed in the Delaware BEP are essentially small business owners and are referred to as BEP operators.

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVES

The objectives of this investigation were:

1. To determine the propriety of receipt transactions at the Carvel Cafeteria and identify financial irregularities.
2. To determine if the deposits received from Dunkin Donuts were made properly.

SCOPE

The portion of this investigation relating to receipt activity covered the period January 2007 through May 2007, and included reviewing all of the Carvel Cafeteria receipt activity. The portion of this investigation relating to the Dunkin Donuts deposits covered October and November 2006, and included reviewing the contract with Dunkin Donuts to determine how much BEP and/or the cafeteria manager was paid.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

METHODOLOGY

The techniques used in this investigation included:

- Interviews and inquiry.
- Inspection and documentation.

The investigation consisted of the following procedures:

- Obtain supporting documentation from DHSS for Carvel Cafeteria receipt activity; to include but not limited to:
 - Bank Statements and deposit slips for the period January 2007 through May 2007.
 - Support for cash payouts for the period January 2007 through May 2007.
 - Support for credit card transactions for the period January 2007 through May 2007.
 - Register tapes for the period January 2007 through May 2007.
- Review and summarize documentation obtained to determine the propriety of the transactions.
- Obtain and review the contract between Dunkin Donuts and DVI. Determine the propriety of the deposits received from Dunkin Donuts in October and November 2006.

CONCLUSIONS

Per review of the Carvel Cafeteria's contract and transactions, the following conclusions were reached:

- The cafeteria manager did not maintain adequate supporting documentation for the cafeteria's financial transactions. For the period January 1, 2007 to May 31, 2007, the following discrepancies were noted:
 - Sales: AOA could not find support for two cash register tapes supporting \$926.19 of sales and could not trace three register tapes supporting \$1,126.31 of sales to the reported figures. In addition, the cafeteria manager did not prepare a reconciliation from the end-of-day register reading to the reported sales for the day when discrepancies occurred.
 - Deposits: AOA could not locate supporting documentation for one deposit of \$95.43 that was reported by the cafeteria manager as revenue to the cafeteria. Also, the cafeteria manager reported \$1,380.05 more in deposits than AOA could find support for.
 - Cash Paid Out: AOA could not locate supporting documentation for \$1,804.91 out of \$9,832.96 the cafeteria manager reported as cash paid out of the cash register to various vendors for supplies and other miscellaneous items.
 - Credit Card Charges: There were discrepancies of \$220.19 in credit card charges reported by the cafeteria manager during the period reviewed.
- The cafeteria manager did not make the required daily deposits. Of the 97 transactions reviewed, 93 transactions totaling \$31,640.94 were not deposited in accordance with contract guidelines.
- The cafeteria manager does not have sufficient written policies and procedures governing the recording, processing, summarizing, and reporting of cash receipt transactions.

Based on conclusions reached, AOA cannot determine the propriety of the sales deposits, cash paid out, and credit card transactions at the Carvel Cafeteria.

Based on the documentation reviewed regarding the Dunkin Donuts allegation, AOA determined that the deposits received from Dunkin Donuts were properly deposited into the cafeteria manager's account.

FINDINGS AND RECOMMENDATIONS

Finding – Lack of Adequate Supporting Documentation

The manager of the Carvel Cafeteria did not always maintain adequate supporting documentation for financial transactions; supporting documentation maintained for daily cash receipt transactions did not always reconcile or agree to the totals reported.

The following table summarizes the transactions reviewed from January 1, 2007 through May 31, 2007, citing the difference between the figures reported by the cafeteria manager and the supporting documentation he maintained.

	Total reported by Cafeteria Manager	Total per support Provided	Variance
Sales	\$47,837.26	\$46,821.51	\$1,015.75
Deposits	\$36,443.62	\$34,968.14	\$1,475.48
Cash Paid Out	\$9,832.96	\$8,028.05	\$1,804.91
Charges	\$3,128.91	\$2,908.72	\$220.19

AOA observations are as follows:

SALES: AOA could not find support for two cash register tapes supporting \$926.19 of sales and could not trace three cash register tapes supporting \$1,126.31 of sales to the reported figures. In addition, there were \$1,036.75 of other sales that were not reported by the cafeteria manager, but were included as supporting documentation. In addition, the cafeteria manager did not prepare a reconciliation from the end-of-day register reading to the reported sales for the day when discrepancies occurred.

DEPOSITS: AOA could not locate supporting documentation for one deposit of \$95.43 that was reported by the cafeteria manager as revenue to the cafeteria. Also, the cafeteria manager reported \$1,380.05 more in deposits than AOA could find support for.

CASH PAID OUT: AOA could not locate supporting documentation for \$1,804.91 out of \$9,832.96 the cafeteria manager reported as cash paid out of the cash register to various vendors for supplies and other miscellaneous items.

CREDIT CARD CHARGES: There were discrepancies of \$220.19 in credit card charges reported by the cafeteria manager during the period reviewed.

The BEP Trainee Agreement for Operation of a Vending Facility that was signed by both a representative from the BEP and the cafeteria manager states: “The BEP trainee will be accountable ... for the proceeds of the business of the vending facility and will handle the proceeds, including correct invoice documentation from supplies, and copies of daily deposit slips reflecting daily sales...”

Inaccurate reporting of cash receipts and the lack of supporting documentation increases the risk of misappropriation of assets and incorrect financial reporting.

FINDINGS AND RECOMMENDATIONS

Recommendation

The cafeteria manager maintain proper supporting documentation for all financial activity.

Auditee Response

The Division for the Visually Impaired concurs with the finding and recommendation as stated. The BEP staff will continue to emphasize the importance of proper supporting documentation for all financial activity and will provide technical support and training during the probationary period through the first 12 months post licensing.

Finding – Untimely Deposits

Each day, the cafeteria manager is required to begin the day with \$600 in the cash register. At the end of the day, the manager is responsible for counting the cash in the drawer and any amount over the \$600 is deposited into the bank. Of the 97 transactions reviewed, 93 transactions, totaling \$31,640.94, were not deposited in accordance with guidelines established by the BEP.

The BEP Trainee Agreement for Operation of a Vending Facility states: “The balance of all the cash sales are to be deposited daily.”

Inattentiveness to the BEP agreement resulted in untimely deposits and an increased risk of misappropriation.

Recommendation

The cafeteria manager comply with the requirements of the BEP agreement and ensure that staff are aware of requirements and acceptable practices for handling cash receipts.

Auditee Response

The Division for the Visually Impaired concurs with the finding and recommendation as stated. BEP staff will monitor bi-weekly, cash receipts and deposits for all operator-trainees and licensed operators. In addition, a corrective action plan will be developed and issued for each operator-trainee or licensed operator not in compliance.

Finding – Lack of Written Policies and Procedures

The cafeteria manager does not have sufficient written internal policies and procedures governing the recording, processing, summarizing, and reporting of cash receipt transactions relating to the Carvel Cafeteria.

Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial statements.

FINDINGS AND RECOMMENDATIONS

By not maintaining sufficient policies and procedures for financial transactions, the cafeteria manager has no true method of ensuring efficient and effective organizational operation.

Recommendation

The cafeteria manager maintain written policies and procedures governing financial transactions, which should include guidance regarding:

- Timely deposits.
- Segregation of duties regarding the handling of cash.
- Definition and retainage of support documentation.
- Elimination of cash payouts supplemented with customer accounts or petty cash.
- Good business practices.

Auditee Response

The Division for the Visually Impaired concurs with the finding and recommendation as stated. In addition, the Business Enterprise Program will amend the trainee agreement to require every operator-trainee to prepare and adopt written policies and procedures governing the financial transactions for their location before a license is issued.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

The Honorable Vincent P. Meconi, Secretary, Department of Health and Social Services

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General

Other

Ms. Valencia L. Beaty, Director, Division of Management Services, Department of Health and Social Services

Ms. Melody Lasana, Controller, Division of Management Services, Department of Health and Social Services

Ms. Cynthia B. Lovell, Director, Division for the Visually Impaired